

# Idaho Economic Forecast

C.L. "Butch" Otter, Governor

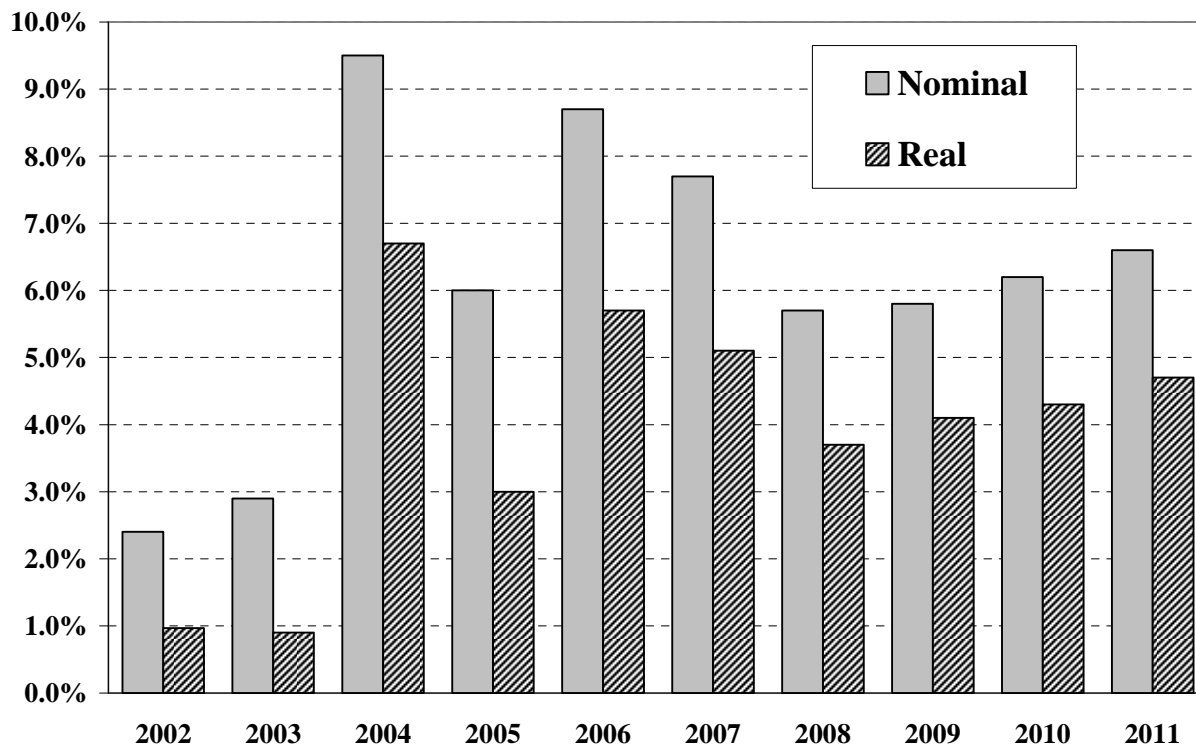
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- Forecast 2007-2011
- Asset Price Bubbles
- Alternative Forecasts

## Idaho Nominal & Real Personal Income Growth



**IDAHO  
ECONOMIC  
FORECAST  
2007 - 2011**

State of Idaho  
C.L. “BUTCH” OTTER  
Governor

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## PREFACE

Idaho's economy continues to grow and evolve as it enters the 21<sup>st</sup> Century. The 1980s was a decade of stop-and-start economic performance. However, it also ushered in one of the longest expansions in the state's history. Since 1987, nonfarm employment has expanded every year and has consistently placed Idaho among the top ten fastest growing states in the nation. The 1990s saw a flood of new residents move into the state, causing the population to expand by an astounding 29% from 1990 to 2000. Over this period Idaho personal income nearly doubled. Much of the current expansion results from ongoing structural changes in Idaho's economy.

One of the biggest changes is the rise of the state's high-technology sector. Virtually nonexistent in the 1970s, this sector achieved critical mass in the 1990s to become the state's largest manufacturing employer. The growth of industry giants, such as Micron Technology and Hewlett-Packard, as well as the emergence and expansion of smaller companies, pushed payrolls above even the most optimistic forecasts made in the 1980s. The state's trade sector has also been going through a transformation. The last decade witnessed an influx of national "big box" merchandisers. During this same time, Idaho merchants successfully reached beyond the state's borders. Several regional shopping centers were established that serve locals, as well as attract shoppers from other states and Canada. Visitors fueled the surge in tourism that also benefited trade. Like its national counterpart, the service sector accounts for most of the nonfarm jobs in Idaho. Tourism has also been a boon to the service industry. While traditional factors, such as increasing discretionary income, continue to fuel the demand for services, other influences have emerged. For example, the use of temporary employees in manufacturing has bolstered business services employment. Idaho's outstanding work force has been a major factor in attracting call centers, back office operations, and credit card companies.

While many changes are taking place today, traditional resource industries still play a major role in Idaho's economy. Indeed, the state's mining, agriculture, and timber sectors all experienced lulls in the late 1990s. While displaying more resilience to downturns than in the past, these industries are not totally immune from business-cycle effects. The continuing dependence on natural resources will bring a host of challenges to Idaho.

Other factors that are external to the state's economy will also present challenges to decision makers. Public policy decisions made in Washington, D.C. affect resource industry and federal installations such as the Idaho National Laboratory and the Mountain Home Air Force Base. Finding balanced and acceptable solutions to endangered and threatened species issues and timber supply issues are of major economic significance.

In order to deal effectively with these challenges, public and private decisions need to be made with a thorough understanding of the structure of the state's economy. It is to this end that the *Idaho Economic Forecast* is directed.

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## TABLE OF CONTENTS

Preface.....	iii
Introduction.....	2
Executive Summary .....	5
Idaho and U.S. Forecast Summary Tables.....	6
Forecast Description:	
National.....	8
Idaho .....	14
Forecasts Comparison.....	20
Alternative Forecasts .....	22
Feature Article	
Asset Price Bubbles .....	25
Forecast Detail .....	31
Annual Forecast .....	32
Quarterly Forecast .....	46
Appendix.....	61
Global Insight U.S. Macroeconomic Model.....	62
Idaho Economic Model.....	64
Equations .....	66
Endogenous Variables .....	70
Exogenous Variables .....	72

## INTRODUCTION

The national forecast presented in this publication is the December 2007 Global Insight baseline forecast of the U.S. economy. The previous *Idaho Economic Forecast* is based on the October 2007 Global Insight baseline national forecast.

The recent histories and forecasts for Idaho real and nominal personal incomes are shown in the cover graph of this *Idaho Economic Forecast*. Both measures' growth rates are anticipated to slow in both 2007 and 2008, and then they gradually pick up speed over the remaining years of the forecast. Specifically, Idaho real personal income advances 5.1% in 2007, 3.7% in 2008, 4.1% in 2009, 4.3% in 2010, and 4.7% in 2011. Idaho nominal personal income increases 7.7% in 2007, 5.7% in 2008, 5.8% in 2009, 6.2% in 2010, and 6.6% in 2011.

## FEATURE

Economists use the term "bubble" to describe an asset price that has risen above the level justified by economic fundamentals, as measured by the discounted stream of expected future cash flows that will accrue to the owner of the asset. The dramatic rise in U.S. stock prices during the late 1990s, followed similarly by U.S. house prices during the early 2000s, are episodes that have both been described as "bubbles." The feature article entitled "Asset Price Bubbles" describes some research that attempts to account for the behavior of asset price bubbles. It was written by Kevin J. Lansing. Mr. Lansing is a Senior Economist with the Federal Reserve Bank of San Francisco.

## THE FORECAST

Alternative assumptions concerning future movements of key economic variables can lead to major variations in national and/or regional outlooks. Global Insight examines the effects of different economic scenarios, including the potential impacts of recessions, higher inflation, and future Federal Reserve Board decisions. Alternative Idaho economic forecasts were developed under different policy and growth scenarios at the national level. These forecasts are included in this report.

Historical and forecast data for Idaho and the U.S. are presented in the tables in the middle section of this report. Detail is provided for every year from 1994 to 2011 and for every quarter from 2005 through 2010. The solution of the Idaho Economic Model (IEM) for this forecast begins with the third quarter of 2007.

Descriptions of the Global Insight U.S. Macroeconomic Model and the IEM are provided in the Appendix. Equations of the IEM and variable definitions are listed in the last pages of this publication.

## CHANGES

The Idaho Department of Labor provided monthly historical employment data that was seasonally adjusted and converted to a quarterly frequency by the Idaho Division of Financial Management (DFM). These adjusted data include final employment numbers through the second quarter of 2007 and estimates for the third quarter. These data show Idaho nonfarm employment grew much faster during these quarters than had been previously anticipated. Last October DFM predicted Idaho nonfarm employment would decline at a 1.9% annual pace in the second quarter of 2007 and grow at a 1.6% clip in the following quarter. New data show it expanded by 2.9% in the second quarter and 1.8% in the third quarter. As a result, Idaho nonfarm

employment is nearly 8,800 higher in the third quarter. About 2,800 of this increase was in the construction sector. Services employment was raised about 4,800. State and local government employment is about 1,000 higher than was reported in October 2007.

The tables in this forecast include the U.S. Bureau of Economic Analysis' (BEA) September 20, 2007 estimates of Idaho quarterly personal income through the second quarter of 2007. The quarterly estimates were revised back through the first quarter of 2004. The BEA published another round of Idaho quarterly personal income estimates on December 19, 2007. However, it was released too late to be included in the current forecast.

The *Idaho Economic Forecast* is available on the Internet at [http://dfm.idaho.gov/Publications/Econ\\_Publications.html](http://dfm.idaho.gov/Publications/Econ_Publications.html). Readers with any questions should contact Derek Santos at (208) 854-3070 or at [dsantos@dfm.idaho.gov](mailto:dsantos@dfm.idaho.gov).

## SUBSCRIPTIONS

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